MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015/2016

DMG5028 – MANAGEMENT ACCOUNTING 2

(All sections / Groups)

15 OCTOBER 2015
2.30 p.m - 5.30 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of six (6) pages only excluding the cover page.
2. There are **FIVE (5)** questions.
3. Answer **ALL** questions in the answer booklet provided.

QUESTION 1

Part A

Aaryan's lecturer explained in class today that many manufacturers have the option of selling products at a given point in the production cycle or continuing to process with the expectation of selling them at a later point at a higher price. For an example, the owner of a blueberry orchard may sell the blueberries as they are, or process the blueberries into blueberry sauce, blueberry pie or blueberry tart.

Instruction
You are required to explain further to Aaryan what is the decision rule in deciding whether to sell a product as it is, or to process it further.

(1 mark)

Part B

Neesun Automobile has been manufacturing its own MP4 player for its sedan cars. The company is currently operating at 100% capacity, and the manufacturing cost is summarized as below:

- Direct materials per unit: RM20
- Direct labour cost per unit: RM10
- Variable manufacturing overhead: 70% of direct labour cost
- Fixed manufacturing cost: RM120,000
- Normal production: 40,000 MP4 players per year

A supplier offers to make the MP4 players at a price of RM38 each. If Neesun Automobile accepts this offer, all variable manufacturing costs will be eliminated, but only RM10,000 fixed manufacturing cost can be avoided.

Instructions

(a) Prepare the incremental analysis for the decision to make or buy the MP4 players.

(7 marks)

(b) Should Neesun Automobile buy or make the MP4 players? Justify your answer.

(1 mark)

(c) Would your answer be different in (b) if the productive capacity released by not making the MP4 players could be used to produce income of RM50,000?

(5 marks)

Continued.....

Part C

The Exam and Records Unit (ERU) of Multimedia University relies heavily on a photocopy machine to print exam papers every semester. Recently ERU's clerk has not been able to process all the necessary copies within the regular work week. Management is considering replacing the photocopy machine with a faster model. The information for both the current and new photocopy machine is as follows:

	Current machine	New machine
Original purchase cost	RM15,000	RM28,000
Accumulated depreciation	10,000	-
Estimated operating costs (annual)	8,000	2,200
Useful life	5 years	5 years

If the current photocopy machine is sold now, it would have a salvage value of RM3,000. If operated for the remainder of its useful life, the current machine would have zero salvage value. The new machine is expected to have zero salvage value after five years.

Instruction
Prepare an analysis to show whether the company should retain or replace the photocopy machine. Justify your answer.

(6 marks)

[TOTAL 20 MARKS]

QUESTION 2

Part A

Cost-plus pricing is a process whereby a product's selling price is determined by adding a markup to a cost base. A few approaches of cost-plus pricing are full-cost pricing, absorption-cost pricing, variable-cost pricing and time-and-material pricing.

Instructions
(a) Identify the costs which are included in the cost base when absorption-cost pricing is used to determine the markup percentage. (2 marks)

(b) Identify which costs are excluded when absorption-cost pricing is used, and therefore have to be provided for in the markup? (1 mark)

Continued.....

Part B

BH Industries needs to set a target price for its newly designed product, RoadRunners. Cost data relating to the product at a budgeted volume of 10,000 units is as follows:

	Per Unit	Total
Direct materials	RM120	
Direct labour	180	
Variable manufacturing overhead	50	
Fixed manufacturing overhead		RM800,000
Variable selling & administrative expenses	20	
Fixed selling & administrative expenses		400,000

The company uses cost-plus pricing that provides it with a 30% ROI on this new product. RM5,000,000 in assets is committed to production of RoadRunners.

Instructions

(a) Compute each of the following under the absorption-cost approach:
   (i) Markup percentage needed to provide desired ROI. (7.5 marks)
   (ii) Target price of RoadRunners. (2 marks)

(b) Compute each of the following under the variable-cost approach:
   (i) Markup percentage needed to provide desired ROI. (5.5 marks)
   (ii) Target price of RoadRunners. (2 marks)

[TOTAL 20 MARKS]

QUESTION 3

Part A

SY Avenue, a food grocery and gift shop has provided the following data to be used in its service department cost allocations:

	Service Departments		Operating Departments	
	Administration	Janitorial	Groceries	Gifts
Departmental costs before allocation	RM200,000	RM50,000	RM2,200,000	RM900,000
Employee-hours	300	180	3,000	820
Space occupied (sq. ft.)	200	100	3,500	1,500

The company allocates Administration costs first on the basis of employee-hours and then Janitorial costs on the basis of space occupied (square feet).

Instructions

(a) Using the step-down method, allocate the service department costs to the operating departments. (6 marks)

(b) Briefly explain the main difference between direct method and step-down method. (2 marks)

Continued.....

Part B

Milky Way Company processes unprocessed goat milk up to the splitoff point where two products, condensed goat milk and skim goat milk result. The following information was collected for the month of September.

Direct materials processed	: 9,600 gallons (after shrinkage)	
Production	: Condensed goat milk	4,150 gallons
	Skim goat milk	5,450 gallons
Sales	: Condensed goat milk	RM3.20 per gallon
	Skim goat milk	RM2.20 per gallon

The costs of purchasing the unprocessed goat milk and processing it up to the splitoff point to yield a total of 9,600 gallons of saleable product was RM188,000. There were no inventory balances of either product.

Condensed goat milk may be processed further to yield 4,000 gallons (the remainder is shrinkage) of a medicinal milk product, Zeuro, for an additional processing cost of RM5 per usable gallon. Zeuro can be sold for RM25 per gallon.

Skim goat milk can be processed further to yield 5,300 gallons of skim goat ice cream, for an additional processing cost per usable gallon of RM5. The product can be sold for RM10 per gallon. There are no beginning and ending inventory balances.

Instructions

(a) Allocate the joint costs between the two products using the net realizable value (NRV) method. (7 marks)

(b) Compute the cost per gallon for Zeuro and skim goat ice cream. (5 marks)

[TOTAL 20 MARKS]

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QUESTION 4

On 1 January 2015, the accountant of Syarikat Pepperidge provided the following data for the six months ending 30 June 2015.

- **Sales units**: Q1: 6,000; Q2: 7,000; Q3: 8,000
- **Selling price per unit**: RM30 in Q1; increase 20% in Q2
- **Ending raw materials inventory**: 40% of the next quarter's production requirements
- **Ending finished goods inventory**: 30% of the next quarter's expected sales units
- **3rd Quarter production**: 8,300 units
- **Raw materials required**: Four pounds to make each unit of finished goods
- **Cost of raw materials purchased:** RM6 per pound

The ending raw materials and finished goods inventory on 31 December 2014, follow the same percentage relationships to production and sales that occur in 2015.

Instructions

(a) Prepare a sales budget by quarters for the six-month period ended 30 June 2015. (4 marks)

(b) Prepare a production budget by quarters for the six-month period ended 30 June 2015. (5.5 marks)

(c) Prepare a direct materials budget by quarters for the six-month period ended 30 June 2015. (10.5 marks)

[TOTAL 20 MARKS]

QUESTION 5

PART A

Speedy Shoes Enterprise produces two types of shoes: Running and Hiking. The general manager decided to use a plantwide overhead rate based on direct labour costs. However, the board of directors has heard of activity-based costing and wants to see how the results would differ if this system were used.

Two activity cost pools were developed: machining and machine setup. Below is information related to the company's operations.

	Running	Hiking
Direct labour costs	RM90,000	RM160,000
Machine hours	2,000	2,000
Setup hours	200	800

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Total estimated overhead costs are RM350,000. Overhead costs allocated to the machining activity cost pool is RM200,000, and RM150,000 is allocated to the machine setup activity cost pool.

Instructions

(a) Compute the overhead rate using the traditional (plantwide) approach. (2 marks)

(b) Compute the overhead rates using the activity-based costing approach. (3 marks)

(c) Compute the allocation of overhead to both types of shoes using traditional approach and activity-based costing approach. (5 marks)

PART B

Jean Win Corporation provided the following information about its standard costing system for 2015.

Standard Data	
• Materials	5kg @ RM4 per kg
• Labour	3 hours @ RM21 per hour
• Budgeted production	4,000 units

Actual Data	
• Materials purchased	25,000kg for RM112,500
• Materials used	22,000kg
• Labour worked	12,375 hours costing RM247,500
• Production	4,500 units

Instructions

(a) Calculate the materials price variance. (2.5 marks)

(b) Calculate the materials quantity variance. (2.5 marks)

(c) Calculate the labour price variance. (2.5 marks)

(d) Calculate the labour quantity variance. (2.5 marks)

[TOTAL 20 MARKS]

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